

# The cost of running government departments

Government departments spend some of the money they are allocated on their own operations. This includes the cost of employing staff, from salaries to pension contributions; of renting and operating the buildings in which government officials work; and building and running the IT systems that enable (or otherwise) government business. Overall, spending on administration, as measured by the administration budgets, is lower than planned.

Separate data is available on estates and staff costs, two significant components of the money departments spend on their own operations. The government estate has shrunk in terms of cost and size, and government staff now have to make do with less space per employee. The story of staff costs is slightly different: while the cost of employing permanent staff has fallen, this is partially offset by employing temporary staff, particularly agency and clerical staff and interim managers.

## About the data

For overall **administration costs**, we use Public Expenditure Statistical Analyses (Pesa), which we also used in the 'Finance' chapter. We have used table 1.7 (Administration budgets) from Pesa 2013 and 2014 to compare plans with outturn. The definition of 'administration spending' has changed over time and may not include everything related to running the operations of a department.

Also, throughout this chapter, we use the savings reports published annually by the Cabinet Office's Efficiency and Reform Group (ERG) since 2011. These present cost reductions achieved in a number of categories of spend, including staff costs, consultancy, advertising and IT spend, and estate and major projects costs.<sup>1</sup>

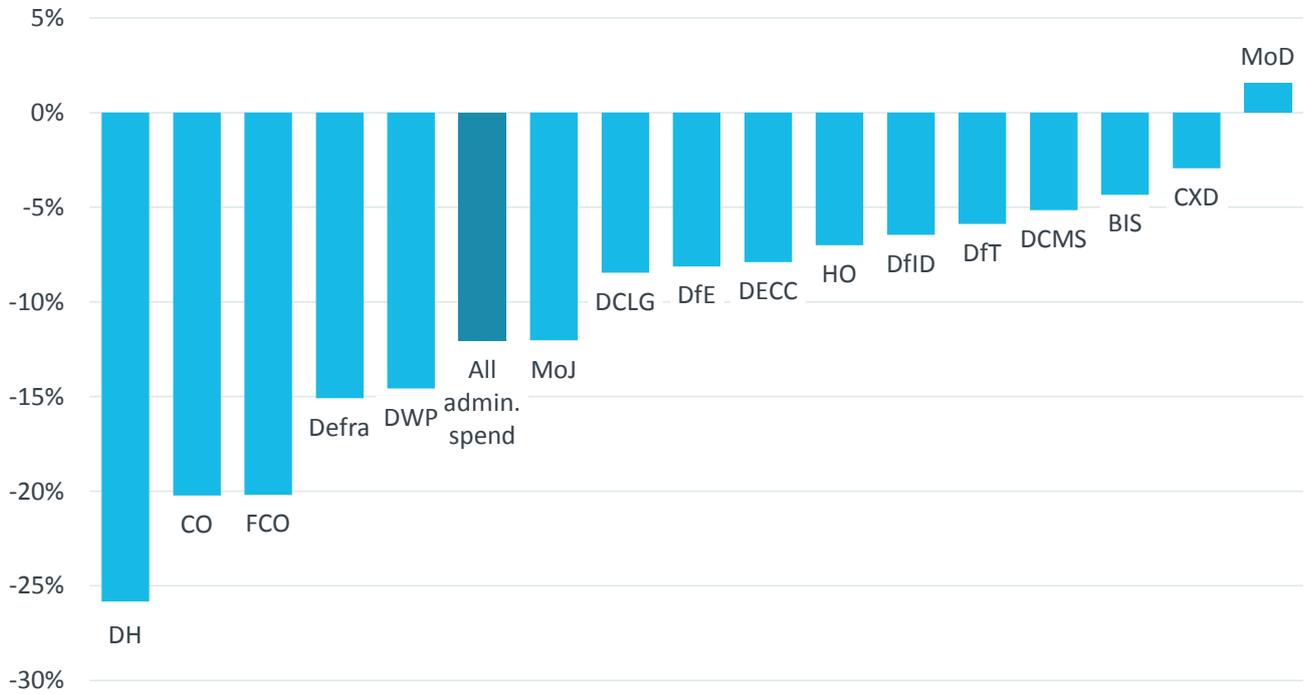
On **estates**, we have used the 2013 edition of *State of the Estate*, which has been published annually since 2010 by the Government Property Unit. It contains data on the size and cost of the mandated estate – the part of the government estate for which departments are required to report data centrally, comprising the property owned or used by government departments and arm's-length bodies and excluding infrastructure, heritage sites, the NHS, overseas property and military estate. The departmental data is for the full departmental group – it includes arm's-length bodies. A subset of this estate – the 'benchmark estate' – also includes unit costs and comparison to private sector benchmarks.<sup>2</sup>

On **staff costs**, we have used workforce management information (WMI). This is internal data on the numbers of different categories of staff and the related costs, published monthly by departments. This data started to be published after the ERG instituted a system of spending controls on hiring as well as consultancy and some other spending. They are not official statistics, so should be interpreted carefully; we have found occasional errors in the data and not all of it is publicly available.<sup>3</sup>

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### Cost of running departments: continues to be lower than planned

**Figure 3.1: Administration budgets – spending compared to plans, 2013-14**



Source: Institute for Government analysis of Table 1.7 in Pesa 2013 (plans for 2013-14) and Pesa 2014 (outturn 2013-14).

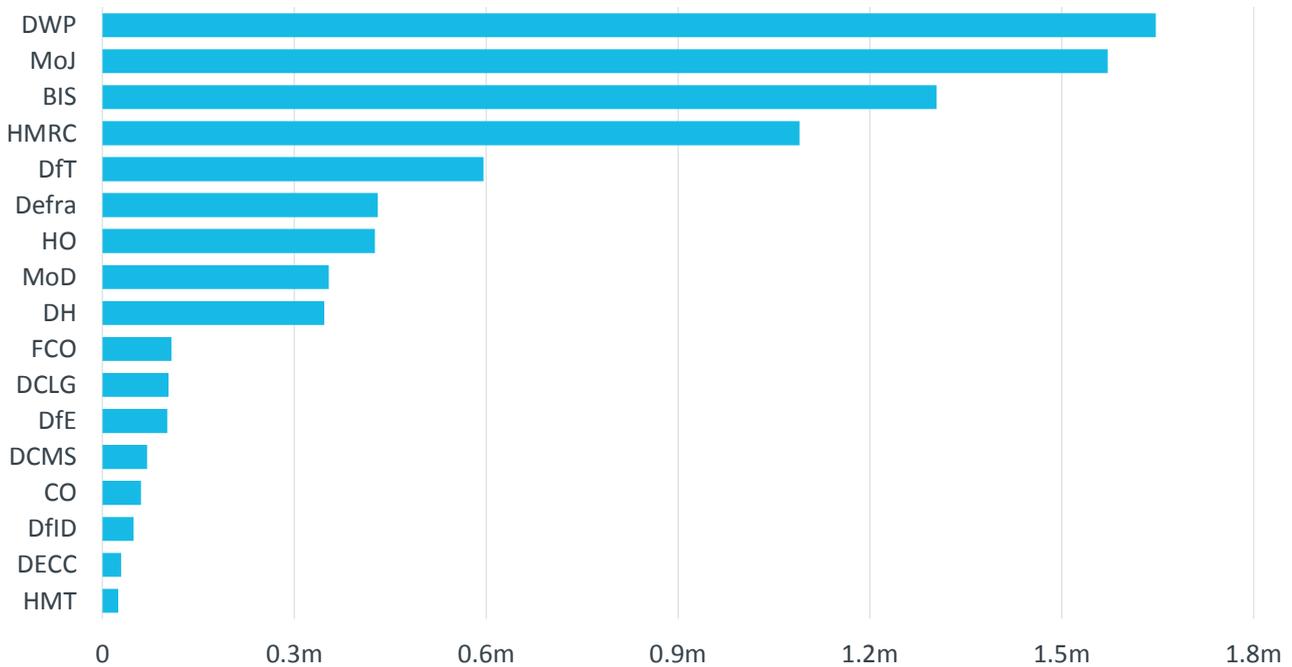
Administration budgets make up about £11.7bn – some 1.6% of total government spending and about 3.5% of Departmental Expenditure Limits (DEL). This is spending set aside for administrative expenses, as opposed to ‘programme’ expenses – money spent on providing public services.

Spending Review 2010 contained plans to reduce administration spending by about a third, and Spending Round 2013 by another £1.9bn, to around 40% below the level of 2009-10.<sup>4</sup> In the year to March 2014, most departments’ administration spending was significantly lower even than planned: all departments except MoD have underspent, with 14 of the 17 departments underspending by more than 5%. Administration spending by CO, FCO and DH was more than a fifth below plan. This is a continuation of the situation we found last year. However, a look at forward plans made over time suggests that they are not always adjusted to reflect savings made in the previous year, so not all the underspends have accrued in the past year alone.

Defining each pound as spending on either ‘administration’ or ‘programme’ is inherently difficult and the definition of what types of spending fall within this total has changed over time. Administration budgets, as found in public spending documents, are therefore better thought of as a tool for controlling spending rather than a comprehensive indicator of departments’ running costs.

Estate: DWP, MoJ, HMRC and HO hold 54% of it; overall estate shrunk by 17% since 2010

Figure 3.2: Size of government estate (square metres of floor space)



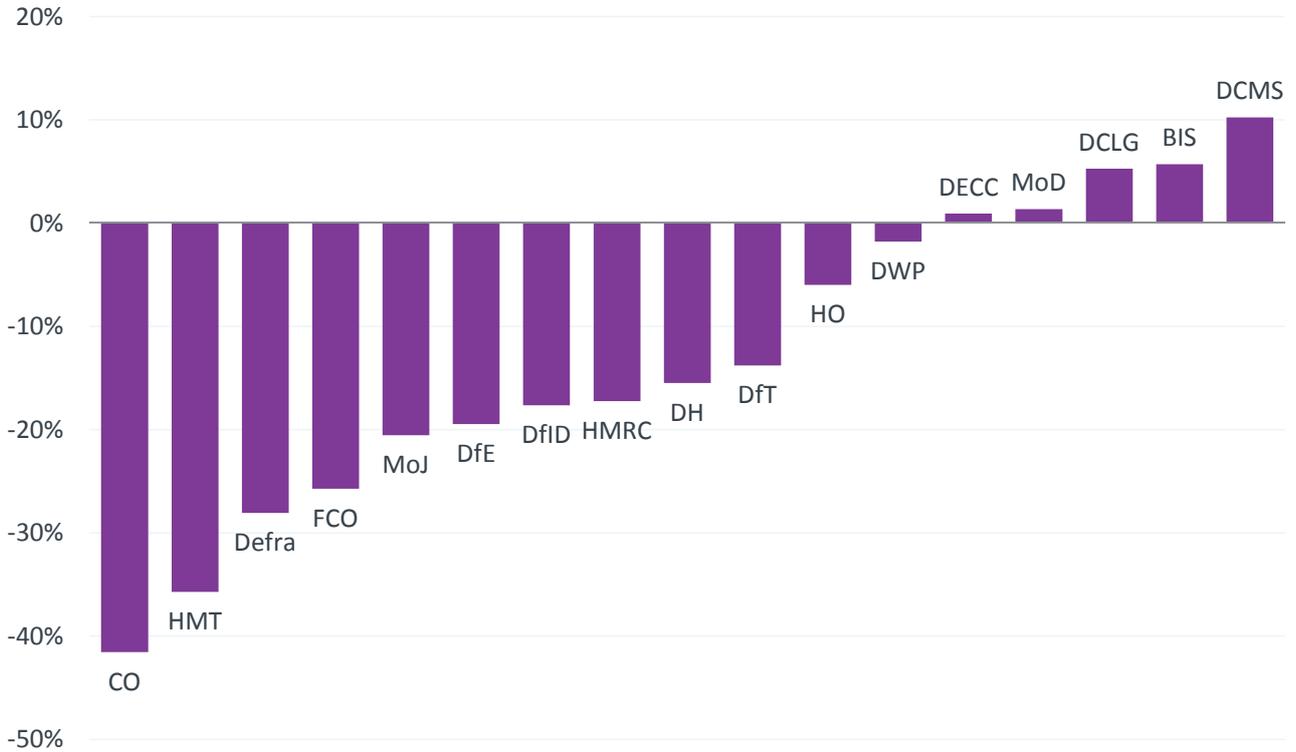
Source: *State of the Estate* 2013, data as of January 2014. Excludes overseas estate (notable for FCO and HO); MoJ includes courts estate but excludes prisons. MoD includes only civil estate.

Four large delivery departments together make up 54% of the mandated estate: DWP with its job centres; MoJ, which manages the courts estate; HMRC with its operations; and HO, which operates the borders and immigration services. BIS and DfT also feature at the top of the chart because of the presence of numerous delivery organisations, including the Land Registry and the Driver and Vehicle Licensing Agency.

Renting and running the buildings in which government business takes place is a significant component of departments’ running costs. In the year to March 2014, government spent £2.99bn<sup>5</sup> running the mandated civil estate totalling 8.7m square metres – the equivalent of 1,200 football pitches.

Government has identified the need to optimise and better co-ordinate how it uses office space, and since 2010, the total size of mandated civil estate has been reduced by 17%. According to the *State of the Estate* report, the cost of running the estate fell by about 5% in 2013, while the ERG has identified savings from property optimisation – downsizing and central control of new leases – of £461m against their 2010 baseline (not including asset sales).<sup>6</sup>

**Figure 3.3: Change in space (square metres) per member of staff (Full-time Equivalents, FTE) in benchmarked estate, 2011-13**

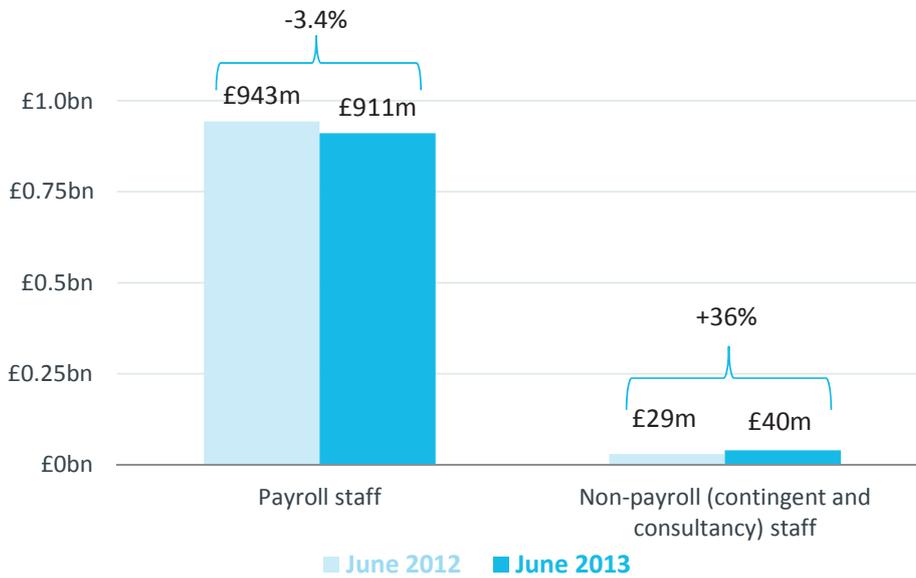


Source: *State of the Estate*, 2011 and 2013.

The benchmarked estate is a subset comprising 3.2m square metres of the 8.7m square-metre mandated civil estate. It contains property for which unit costs can be compared across departments and against private sector property management benchmarks. Since 2011, the space available on average to each member of staff within it has shrunk, in some departments significantly so: the space available per staff member in the Cabinet Office and the Treasury has shrunk by more than a third since 2011 as the buildings in which they are housed have accommodated additional organisations. The floor space of government buildings has typically shrunk faster than the workforce occupying these buildings.

### Staff costs: permanent staff costs down, but temporary staff costs up

**Figure 3.4: Monthly staff costs in departments, June 2012 and June 2013**

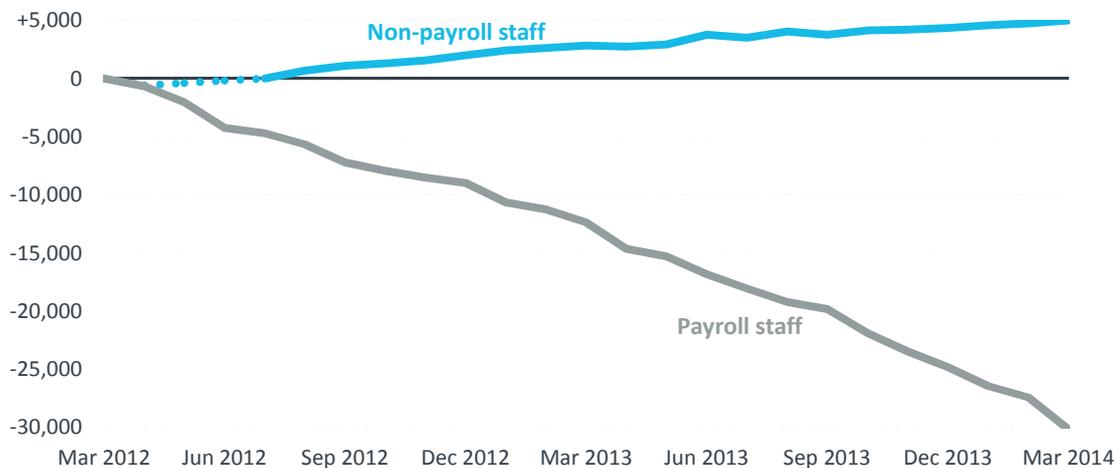


Source: Institute for Government analysis of WMI. Excludes FCO and DCMS (missing data) and most arm's-length bodies; includes organisations managed by central departments or where no distinction could be made (e.g. MoD, HO, DWP).

Whitehall departments spend roughly £900m a month on staff costs (permanent civil servants’ salaries and other costs related to employing payroll staff). This gives an £11bn annualised cost of employing payroll staff. Departments spend £40m monthly (roughly £500m annually) on ‘contingent and consultant labour’ not on the payroll, including temporary agency staff, interim managers, specialist contractors, and consultants.

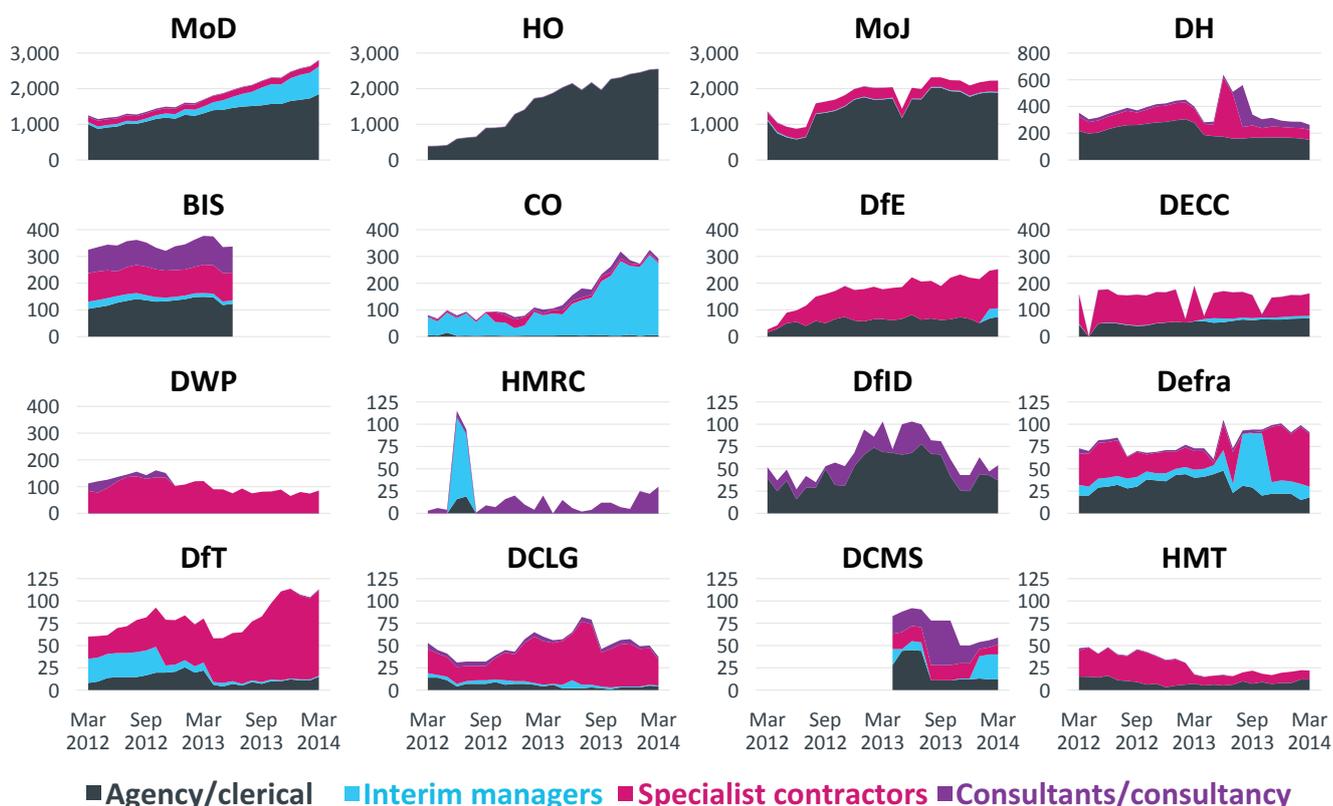
For illustration, we can compare monthly staff costs in June 2012 and June 2013, where the data is most complete. It shows that while costs of employing payroll staff have been falling, non-payroll costs have risen. This is also reflected in the staff numbers – while numbers of payroll staff have continued to decrease, the numbers of non-payroll staff have increased. In the 18 months to December 2013, non-payroll staff increased by more than 4,000 FTE.

**Figure 3.5: Changes to payroll and non-payroll staff (FTE), March 2012 to March 2014**



Source: Institute for Government analysis of WMI. Excludes BIS, DCMS, DfID and FCO, which did not publish all data. Drop between March and July 2012 due to missing HM Courts and Tribunals data (MoJ).

Figure 3.6: Numbers of non-payroll staff in departments, March 2012 to March 2014



Source: Institute for Government analysis of departmental Workforce Management Information.

Looking at the changes in non-payroll staff in more detail suggests that the increase is due largely to growing numbers of agency and clerical workers in HO, MoJ and MoD, and interim managers in MoD and CO. The spike in consultants and contractors in DH in mid-2013 is attributable to the onset of NHS reform, but notably no comparable increase is apparent in DWP with respect to its major reforms such as Universal Credit or automatic enrolment into pensions.

Staff reductions – a stated objective of the Government’s *Civil Service Reform Plan* – are having an effect on costs. Even in the period from June 2012 to June 2013, when most staff reductions had already occurred, the pay bill fell by some 3%. Indeed, the ERG, which has access to the complete data from 2010 onwards, has identified pay bill savings of £2.4bn in this parliament.<sup>7</sup>

And while staff costs and the employment of non-permanent staff form an important part of the operations of central government, the core capability of government departments stems from the civil servants that government employs. We turn to these in the next chapter.